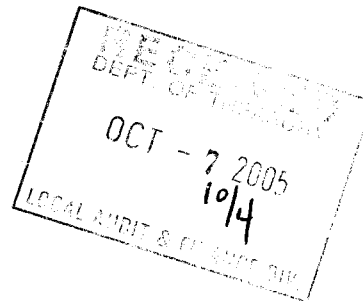


MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY

MANISTEE , MICHIGAN

FINANCIAL REPORT WITH
SUPPLEMENTAL INFORMATION

JUNE 30, 2005



MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
MANISTEE, MICHIGAN
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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Manistee Downtown Development Authority	County Manistee
Audit Date 6-30-05	Opinion Date 9-14-05	Date Accountant Report Submitted to State: September 25, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Kalcher, Vanderwal & Torrey, P.C.			
Street Address 475 Water Street	City Manistee	State MI	ZIP 49660
Accountant Signature Daniel J. Richards, C.P.A.		Date 10/3/05	

**KALCHER
VANDERWAL
TORREY, P.C.**

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

CERTIFIED PUBLIC ACCOUNTANTS

TRAVERSE CITY
MANISTEE

Of Counsel:
LEONARD R. KALCHER, C.P.A.

Independent Auditors Report

September 14, 2005

To the Board of Directors
Manistee Downtown Development Authority
Manistee, Michigan 49660

We have audited the accompanying financial statements of the governmental activities and the General Fund of Manistee Downtown Development Authority as of and for the year ended June 30, 2005, which collectively comprise Manistee Downtown Development Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Manistee Downtown Development Authority management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Manistee Downtown Development Authority as of June 30, 2005 and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Manistee Downtown Development Authority's basic financial statements. The accompanying required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 14, 2005 on our consideration of the Downtown Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Halcher, Vandewal & Zorrey, P.C.

Certified Public Accountants

**KALCHER
VANDERWAL
TORREY, P.C.**

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

CERTIFIED PUBLIC ACCOUNTANTS

TRAVERSE CITY
MANISTEE

Of Counsel:
LEONARD R. KALCHER, C.P.A.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 14, 2005

To the Board of Directors
Manistee Downtown Development Authority
Manistee, Michigan

We have audited the financial statements of Manistee Downtown Development Authority as of and for the year ended June 30, 2005, and have issued our report thereon dated September 14, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Manistee Downtown Development Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

FOUR SEVENTY-FIVE WATER STREET • P.O. BOX TEN • MANISTEE, MI 49660
PHONE: 231-723-6275 • FAX: 231-723-0140

Members:

American Institute of Certified Public Accountants • Michigan Association of Certified Public Accountants

September 14, 2005

However we noted certain matters that we reported to management of Manistee Downtown Development Authority in a separate letter dated September 14, 2005.

This report is intended for the information of the Board of Directors and management. However, this report is a matter of public record and its distribution is not limited.

Halcher, Vanderwal & Zoney, P.C.

Certified Public Accountants

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

The Manistee Downtown Development Authority (DDA) is a component unit of the City of Manistee, Michigan. The purpose of the Authority is to act as the Development Authority for the City in accordance with Act 197 of the Public Acts of 1975, as amended, including, but not limited to: correct and prevent deterioration in the Downtown Development District; to encourage historic preservation, to create and implement development plans, and to promote economic growth.

The DDA is governed by a volunteer Board of Directors, consisting of the Mayor and eight other members appointed by the Mayor, with the approval of the City Council. The DDA is a public body and conducts itself in accordance with all of the Michigan Statutes governing the operation of public agencies. The DDA Board meets the first Wednesday of each month and the DDA Marketing Committee meets the second Thursday of each month.

Four special Downtown Development Authority meetings were held during the year 2005 to discuss goals and priorities. As a result, the following goals and priorities have been established.

1. Hire a full time DDA director.
2. Historical – Maintain, promote, preserve and protect the historical uniqueness in the Central Business District.
3. Define and prioritize the aesthetics and maintenance of the Central Business District.
4. Encourage residential living units and appropriate parking in the Downtown District.

This section of the Manistee Downtown Development Authority's annual financial report presents its discussion and analysis of the Downtown Development Authority's financial performance during the fiscal year from July 1, 2004, to June 30, 2005.

Financial Highlights

When the budget was drafted, the revenue was estimated on a conservative basis with the expenditures being estimated on a liberal basis.

Actual revenues from Property Taxes, for the fiscal year ended June 30, 2005, were \$ 255,150, compared to \$ 261,953 for the previous fiscal year, a reduction of \$ 6,803. Five percent of the \$ 255,150 was reserved for the Land Acquisition Account this fiscal year, which amounted to \$ 12,758. The reduction of \$ 6,803 was due to a change in the TIF district. This past year, the City remitted taxes actually paid and, if late payments were received, payments to the DDA would be late.

The DDA Board voted to support a brownfield plan for the Manistee Inn and Marina. If approved by the Manistee County Brownfield Authority, the local tax on the current evaluation would continue being captured by the Manistee Downtown Development Authority. The difference between the current evaluation of \$ 359,000, and the future tax evaluation, estimated at \$ 3,000,000, would be captured by the Manistee County Brownfield Authority for five years. After the five years, the DDA

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

Financial Highlights - *continued*

would then start capturing the taxes at the evaluated value. Another brownfield plan is being considered for the proposed River Park Condominiums, on a parcel of land just west of Washington Street, on the Manistee River Channel. As in the first plan, if approved by the Manistee County Brownfield Authority, the local tax on the current evaluation would continue being captured by the Manistee Downtown Development Authority and the future tax for the evaluated value would be captured after five years. If these plans were approved, it would have a very positive impact on future TIF revenue.

Payments on the 1996 Downtown Development bond totaled \$ 64,110 for this fiscal year compared to \$ 57,813 for the last fiscal year. Payments on the 1999 Downtown Development bond totaled \$ 79,926 for this fiscal year, compared to \$ 85,488 for the last fiscal year.

The Marketing Downtown Expense for the fiscal year ending June 30, 2005, totaled \$ 16,358, compared to \$ 34,677 for the previous fiscal year. Last fiscal year, downtown merchants contributed \$ 19,300 and the DDA provided \$ 15,000 in matching funds to cover marketing expenses. This fiscal year, downtown merchants contributed \$ 17,450 and the DDA provided \$ 15,000 in matching funds to cover marketing expenses.

Hiring a full time Downtown Development Authority director is still a high priority, and this, if it comes to fruition, would have an impact on the budget.

Overview of the Financial Statements

This annual report consists of the following parts:

1. Management's discussion and analysis.
2. General Fund Balance Sheet, Reconciliation of the Balance Sheet of the General Fund to the Statement of Net Assets.
3. Statement of Revenue, Expenditures and Changes in Fund Balance.
4. Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the General Fund to the Statement of Activities.
5. Notes to Financial Statements.
6. Required Supplemental Information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the financial statements with a comparison of the DDA's budget for the year.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

Fund Financial Statements

The DDA has one kind of fund:

- Governmental funds: Most of the DDA's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the DDA's programs. Because this information does not encompass the additional long-term focus of the DDA-wide statements, this report includes reconciliation schedules that explain the relationship (or differences) between the DDA-wide Statements and the Fund Financial Statements.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

Financial Analysis of the DDA as a Whole

Net Assets - The DDA's net assets were \$ 228,413 for the year ended June 30, 2005. See Figure A-2 illustrating the valuation of net assets.

Figure A-2

Condensed Statement of Net Assets

	<u>As of 6/30/05</u>	<u>As of 6/30/04</u>
<u>Assets</u>		
Cash	\$ 293,672	\$ 205,982
Receivable - Downtown Merchants	6,150	1,200
Property Tax Receivable	619	-
Total Assets	<u>\$ 300,441</u>	<u>\$ 207,182</u>
<u>Liabilities</u>		
Accounts Payable	\$ 5,258	\$ 6,536
Accrues Interest	920	2,055
Due within one year	60,000	60,000
Due in more than one year	-	60,000
Unearned Revenue	5,850	7,800
Total Liabilities	<u>\$ 72,028</u>	<u>\$ 136,391</u>
<u>Net Assets</u>		
Unrestricted	<u>\$ 228,413</u>	<u>\$ 70,791</u>

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
Condensed Statement of Activities		
Revenues:		
Program Revenue		
Charges for Services	\$ 17,450	\$ 12,600
General Revenue		
Property Taxes	255,150	261,953
Miscellaneous	562	10
Investment Income	3,971	3,246
Transfers	(79,926)	(85,266)
Total Revenue	<u>\$ 197,207</u>	<u>\$ 192,543</u>
Expenses:		
Downtown Development	\$ 36,610	\$ 53,658
Interest on Long-Term Debt	2,975	8,725
Total Expenses	<u>\$ 39,585</u>	<u>\$ 62,383</u>
Increase in Net Assets	\$ 157,622	\$ 130,160
Net Asset - July 1	<u>70,791</u>	<u>(59,369)</u>
Net Assets - June 30	<u><u>\$ 228,413</u></u>	<u><u>\$ 70,791</u></u>

Capital Asset and Debt Administration

Capital Assets - No capital assets. Any assets in the past have been transferred to the City of Manistee. Funding used to pay down debt.

Factors Bearing on the DDA's Future

At the time these financial statements were prepared and audited, the DDA was aware of the following circumstances that could significantly affect its financial health in the future:

- The feasibility of hiring a full time or part time DDA Director will be discussed.

Contacting the DDA's Financial Management

This financial report is designed to provide the DDA's citizens and taxpayers with a general overview of the DDA's finances and to demonstrate the DDA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the DDA's Financial Manager – Eric Nyman.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets

Cash	\$ 293,672
Receivable - Downtown Merchants	6,150
Property Tax Receivable	619
Total Assets	<u>\$ 300,441</u>

Liabilities

Accounts Payable	\$ 5,258
Accrued Interest	920
Unearned Revenue	5,850
Long-term Liabilities:	
Bonds Due within One Year	60,000
Total Liabilities	<u>\$ 72,028</u>

Net Assets

Unrestricted	<u>\$ 228,413</u>
--------------	-------------------

The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
Governmental Activities:				
Downtown Development	\$ 36,610	\$ 17,450	\$ -	\$ (19,160)
Interest on Long-Term Debt	2,975	-	-	(2,975)
Total Governmental Activities	<u>\$ 39,585</u>	<u>\$ 17,450</u>	<u>\$ -</u>	<u>\$ (22,135)</u>
General Revenues:				
Property Taxes				\$ 255,150
Miscellaneous Income				562
Investment Income				3,971
Transfers				(79,926)
Total General Revenues and Transfers				<u>\$ 179,757</u>
Change in Net Assets				\$ 157,622
Net Assets - Beginning of Year				<u>\$ 70,791</u>
Net Assets - End of Year				<u>\$ 228,413</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
GENERAL FUND
BALANCE SHEET
JUNE 30, 2005

Assets

Assets

Cash	\$ 293,672
Receivable - Downtown Merchants	6,150
Property Tax Receivable	619
Total Assets	<u>\$ 300,441</u>

Liabilities and Fund Balance

Liabilities

Accounts Payable	\$ 5,258
Unearned Revenue	5,850
Total Liabilities	<u>\$ 11,108</u>

Fund Balance

Unreserved:

Undesignated	\$ 251,874
Designated	37,459
Total Fund Balance	<u>\$ 289,333</u>

Total Liabilities and Fund Balance	<u>\$ 300,441</u>
------------------------------------	-------------------

The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
RECONCILIATION OF THE BALANCE SHEET OF THE GENERAL FUND
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

Fund Balance - Total General Fund	\$ 289,333
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Long Term Obligations are not due and Payable in the Current Period and are Not Reported in the Funds	(60,000)
Accrued Interest is not due and Payable in the Current Period and is Not Reported in the Funds	<u>(920)</u>
Net Assets - Governmental Activities	<u><u>\$ 228,413</u></u>

The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

<u>Revenue</u>	
Property Taxes	\$ 255,150
Downtown Marketing Program	17,450
Interest Income	3,971
Miscellaneous	562
Total Revenue	<u>\$ 277,133</u>
<u>Expenditures</u>	
Advertising	\$ 549
Contributions	2,500
Dues and Subscriptions	200
EDO Allocation	7,000
Incentive	975
Miscellaneous	672
Marketing Downtown Expense	16,358
Office Supplies	265
Postage and Delivery	100
Professional Fees	3,500
Special Projects	4,154
Supplies	262
Website Maintenance	75
Debt Service:	
Principal Retirement	60,000
Interest	4,110
Total Expenditures	<u>\$ 100,720</u>
Excess of Revenues Over Expenditures	\$ 176,413
Other Financing Sources (Uses):	
Transfer to Primary Government	<u>\$ (79,926)</u>
Excess of Revenues Over Expenditures and Other Uses	\$ 96,487
Fund Balance - Beginning of Year	<u>192,846</u>
Fund Balance - End of Year	<u><u>\$ 289,333</u></u>

The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
OF THE GENERAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net Change in Fund Balance - Total General Fund	\$ 96,487
---	-----------

Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:

Repayments of Principle on Long-term Debt is an Expenditure in the Governmental Funds, but not in the Statement of Activities	60,000
--	--------

Accrued Interest on Long-Term Debt is Recorded in the Statement of Activities, but not in the Governmental Fund	<u>1,135</u>
--	--------------

Change in Net Assets of Governmental Activities	<u><u>\$ 157,622</u></u>
---	--------------------------

The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 - Reporting Entity

The Manistee Downtown Development Authority is a component unit of the City of Manistee, Michigan. The purpose of the Authority is to act as the Development Authority for the City in accordance with Act 197 of the Public Acts of 1975, as amended, including, but not limited to: to correct and prevent deterioration in the Downtown Development District, to encourage historic preservation, to create and implement development plans, and to promote economic growth.

The Authority is governed by a nine-member board consisting of the Mayor of the City of Manistee and at least five (5) persons having an interest in property located in the downtown district. At least one of the board members shall be a resident of the downtown district if it has one hundred or more persons residing within it.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of Manistee Downtown Development Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Authority:

Government-wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net assets and the Statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Authority's Government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes charges to the downtown merchants to cover the costs of marketing the downtown area. Intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The Government-wide financial statements are reported using the economic resources measurable focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2 - Summary of Significant Accounting Policies – *continued*

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – *continued*

Government-wide Financial Statements - *continued*

Amounts reported as program revenue consist of charges to downtown merchants for promotional costs.

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The authority reports the following major governmental fund:

General Fund - The general fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority.

Comparative Data – Comparative data is not included in the Authority's financial statements.

Note 3 – Stewardship, Compliance, and Accountability

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General Fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Authority to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits authorities to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 3 – Stewardship, Compliance, and Accountability - *continued*

Excess of Expenditures Over Appropriations in Budgeted Funds – The Downtown Development Authority incurred expenditures in excess of the amounts appropriated as follows:

<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Over Expended</u>
Professional Services	\$ 2,600	\$ 3,500	\$ 900
Operating Transfers	\$ 79,036	\$ 79,926	\$ 890

The above over expended amounts are contrary to the provisions of Public Act 621 of 1978, Section 18(1), as amended, which provides that, except as otherwise noted in Section 19, a deviation from the original appropriations act shall not be made without amending the general appropriation act.

Note 4 - Deposits

Act 217, PA 1982, as amended, authorizes the Authority to deposit and invest in the following:

- a) Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
- b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d) Repurchase agreements consisting of instruments listed in subdivision (a).
- e) Banker's acceptances of United States banks.
- f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- g) Mutual funds registered under the investment company act of 1940, title 1 of chapter 686, 4 Stat. 789, 15USC 80a-1 to 80a-3 and 80-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:

- i. The purchase of securities on a when-issued or delayed delivery basis.
- ii. The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the securities loaned.
- iii. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 4 – Deposits – *continued*

- h) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967.
- i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367.
- j) The investment pools organized under the Local Government Investment Pool Act, 1985 PA 121.

The carrying amounts of the Downtown Development Authority's deposits as reflected in the accounts of the banks (without recognition of checks written but not yet cleared or of deposits in transit) was \$293,672 of which \$100,000 was covered by federal depository insurance and \$193,672 was uninsured and uncollateralized.

Note 5 - Risk Management

Manistee Downtown Development Authority is included as an insured under policies held by the City of Manistee.

Note 6 - Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 7 - Long-Term Debt

Long-Term Debt at June 30, 2005 consist of the following:

1996 DDA Limited Tax General Obligation Bond with interest at 4.5% and 4.6% due in semi-annual installments. Interest only in March of each year and principal plus interest due in September each year.

The following is a summary of long-term obligations of the Authority for the year ended June 30, 2005:

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
Bond	<u>\$ 120,000</u>	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 60,000</u>

Principle and interest requirements to maturity are as follows:

Year Ending June 30,	Principle	Interest
2006	<u>\$ 60,000</u>	<u>\$ 1,380</u>

REQUIRED SUPPLEMENTAL INFORMATION

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Actual Over/Under Final Budget
<u>Revenues</u>				
Property Taxes	\$ 265,682	\$ 265,682	\$ 255,150	\$ (10,532)
Downtown Marketing Program	25,000	25,000	17,450	(7,550)
Interest Income	3,000	3,000	3,971	971
Miscellaneous	-	-	562	562
Total Revenue	<u>\$ 293,682</u>	<u>\$ 293,682</u>	<u>\$ 277,133</u>	<u>\$ (16,549)</u>
<u>Expenditures</u>				
EDO Allocation	\$ 7,000	\$ 7,000	\$ 7,000	\$ -
Incentive Program	10,000	10,000	975	9,025
Maintenance	2,000	2,000	-	2,000
Miscellaneous	2,000	2,000	1,574	426
Professional Fees	4,600	2,600	3,500	(900)
Special Projects	60,000	72,300	4,154	68,146
Marketing	42,000	42,000	19,407	22,593
Land Acquisition	13,284	13,284	-	13,284
Debt Service:				
Payment of Debt Principal	60,000	60,000	60,000	-
Interest	4,110	4,110	4,110	-
Total Expenditures	<u>\$ 204,994</u>	<u>\$ 215,294</u>	<u>\$ 100,720</u>	<u>\$ 114,574</u>
Revenue Over (Under) Expenditures	\$ 88,688	\$ 78,388	\$ 176,413	\$ 98,025
Other Financing Sources (Uses)				
Operating Transfers Out	<u>\$ (79,036)</u>	<u>\$ (79,036)</u>	<u>\$ (79,926)</u>	<u>\$ (890)</u>
Revenue and Other Sources Over (Under) Expenditures	9,652	(648)	96,487	97,135
Fund Balance - July 1, 2004	<u>192,846</u>	<u>192,846</u>	<u>192,846</u>	<u>-</u>
Fund Balance - June 30, 2005	<u>\$ 202,498</u>	<u>\$ 192,198</u>	<u>\$ 289,333</u>	<u>\$ 97,135</u>

See Notes to Financial Statements.

**KALCHER
VANDERWAL
& TORREY, P.C.**

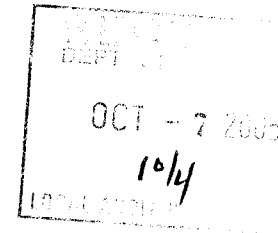
DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

CERTIFIED PUBLIC ACCOUNTANTS

TRAVERSE CITY
MANISTEE

Of Counsel:
LEONARD R. KALCHER, C.P.A.

September 14, 2005



To The Board of Directors
Manistee Downtown Development Authority
Manistee, Michigan 49660

In planning and performing our audit of the financial statements of the Manistee Downtown Development Authority for the year ended June 30, 2005, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated September 14, 2005, on the financial statements of Manistee Downtown Development Authority.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the Authority's personnel, and we will be pleased to discuss these comments in further detail at your convenience to perform any additional study of these matters, or to assist in implementing the recommendations. Our comments are summarized as follows:

State Chart of Accounts

The DDA is a public body and is required to conduct itself in accordance with all of the Michigan Statutes governing public agencies. This includes using the State Chart of Accounts to account for the financial transactions of the Organization in its books of record. The DDA is not currently using the state chart of accounts.

We recommend that the DDA implement the State Chart of Accounts.

Bank Reconciliation

During our audit we noted that the "cleared balance" per the bank reconciliation prepared using the QuickBooks software, does not agree with the balance per the bank at June 30, 2005. In order to ensure that the bank reconciliation is accurate, it is imperative that the "cleared balance" per the bank reconciliation and the "ending balance" per the bank statement agree. The results of this were that the activity detail per the bank did not agree with the detailed general ledger, however, the totals agreed. In order to arrive at the correct cash balance it was necessary for your bookkeeper to change transactions from one month to the next on the bank reconciliations. This calls in to question the accuracy of the reconciliation and makes the transactions confusing and hard to follow.

We recommend that the individual in charge of preparing the monthly bank reconciliations takes steps to ensure that the "cleared balance" per the reconciliation and the "ending balance" per the bank statement are in agreement.

This report is intended for the information and use of the Board of Directors and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Kalcher, Vanderwal & Zoney, P.C.

Certified Public Accountants

**KALCHER
VANDERWAL
TORREY, P.C.**

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
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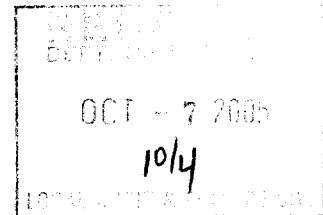
TRAVERSE CITY
MANISTEE

CERTIFIED PUBLIC ACCOUNTANTS

Of Counsel:
LEONARD R. KALCHER, C.P.A.

September 14, 2005

To The Board of Directors
Manistee Downtown Development Authority
Manistee, Michigan 49660



We have audited the financial statements of the Manistee Downtown Development Authority for the year ended June 30, 2005, and have issued our report thereon dated September 14, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter dated April 11, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Manistee Downtown Development Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Manistee Downtown Development Authority are described in Note 1 to the financial statements. We noted no transactions entered into by Manistee Downtown Development Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the provision for depreciation.

Management's estimate of depreciation is based on past experience and industry standards. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Organization's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgement, the adjustments we proposed, as attached in the aggregate, indicate matters that could have a significant effect on the Organization's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If consultation involves application of an accounting principle to the nonprofit organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of Manistee Downtown Development Authority and management of Manistee Downtown Development Authority and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Malcher, Vandewater & Torrey, P.C.

Certified Public Accountants

8:45 AM
10/03/05

Downtown Development Authority Journal June 30, 2005

Trans #	Type	Date	Num	Name	Memo	Account	Debit	Credit
348	General Journal	6/30/2005	CPA1		To adjust Balance to bank Statments ...	checking - NW/STB Downtown Marketing	300.00	300.00
349	General Journal	6/30/2005	CPA2	Adjust. Adjust. Adjust.	To adjust Accounts Receivable	Accounts Receivable Unearned Revenue Downtown Marketing	300.00 4,150.00 1,700.00	300.00 300.00 5,850.00
350	General Journal	6/30/2005	CPA3		To record receivable per 10-5-1	Property Tax Receivable TIF Revenue	5,850.00 619.27	5,850.00
351	General Journal	6/30/2005	CPA4		To reclassify per zz-2-1	Land Acquisition Land Acquisition	619.27 1,523.62	619.27 619.27
352	General Journal	6/30/2005	CPA5		To record Accounts Payable Per 30-4-1	Office Supplies Marketing Downtown Expen... Miscellaneous Accounts Payable - Other	1,523.62 132.35 4,985.12 140.45	1,523.62 1,523.62
353	General Journal	6/30/2005	CPA6	Adjustment Adjustment Adjustment Adjustment Adjustment	To reverse accounts payable at 6-30-04	Accounts Payable Marketing Downtown Expen... Accounting Marketing Postage and Delivery Website Maintenance	5,257.92 5,257.92 6,535.91	5,257.92 5,257.92
TOTAL							20,086.72	20,086.72